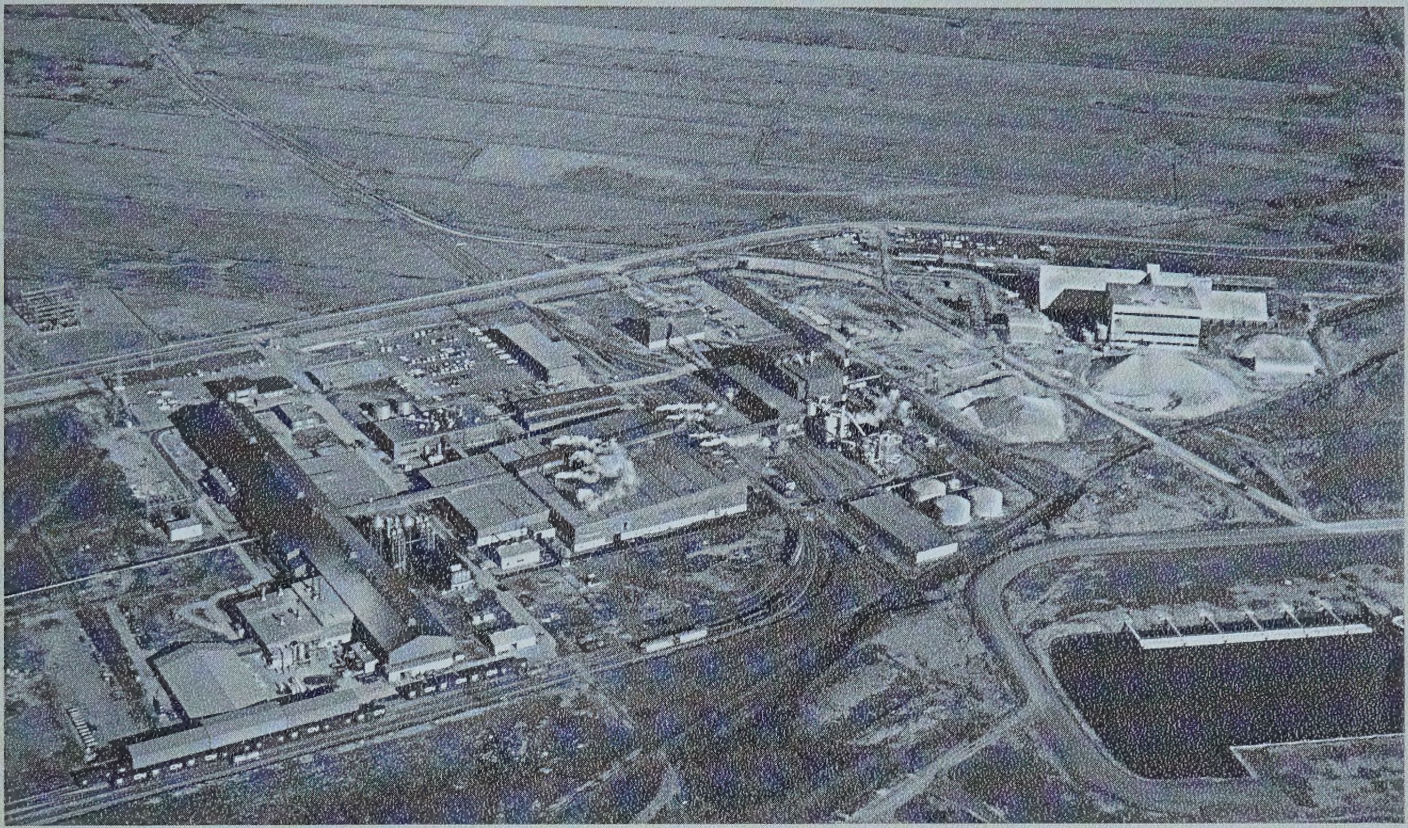
EIGHTH

MATTAGAMI LAKE MINES LIMITED

(NO PERSONAL LIABILITY)

ANNUAL REPORT

1966



Aerial view of the expanded electrolytic reduction plant, roaster and acid plant, St. Lawrence Fertilizers Ltd. and unloading dock.

ANNUAL MEETING — Mattagami Lake Mines Limited. The Windsor Hotel, Montreal, Quebec, on Tuesday the 18th day of April, 1967, at 10:30 o'clock in the forenoon (Montreal time).

MATTAGAMI LAKE MINES LIMITED *(Incorporated under the laws of Quebec)*
(NO PERSONAL LIABILITY)

HEAD OFFICE: MATAGAMI, QUEBEC

EXECUTIVE OFFICE	44 King St. West, Toronto, Ontario
MINE OFFICE	Matagami, Quebec
MINE MANAGER	M. W. AIRTH
AUDITORS	PEAT, MARWICK, MITCHELL & CO. Toronto, Ontario
REGISTRAR AND TRANSFER AGENT	EASTERN & CHARTERED TRUST COMPANY, Vancouver, Calgary, Saskatoon, Winnipeg, Toronto, Montreal, St. John, N.B., Halifax, Charlottetown, St. John's, Nfld.
SOLICITORS	MILLER, THOMSON, HICKS, SEDGEWICK, LEWIS & HEALY
BANKERS	CANADIAN IMPERIAL BANK OF COMMERCE THE BANK OF NOVA SCOTIA

DIRECTORS

J. M. R. CORBET	Toronto
R. G. DUTHIE	Vancouver
H. E. LANGFORD	Toronto
R. LETOURNEAU	Quebec
T. H. McCLELLAND	Vancouver
R. V. PORRITT	Toronto
J. B. REDPATH	Toronto
W. S. ROW	Toronto
K. J. SPRINGER	Toronto

OFFICERS

W. S. ROW	President
T. H. McCLELLAND	Vice-President
R. C. ASHENHURST	Secretary and Treasurer
B. C. BONE	Assistant Treasurer

REPORT OF THE DIRECTORS

To the Shareholders:

Your directors submit the Eighth Annual Report of your Company for the year ended December 31, 1966 including Financial Statements, the Auditors' Report and the Report of the Manager.

Ore milled during the year was 1,411,100 tons or an average of 3,866 tons per day, slightly higher than in 1965. Due to favourable ground conditions it was possible to mine some higher grade pillars prior to filling the adjacent stopes. This resulted in reduced costs and mill heads higher than estimated. Consequently, the average grade of ore mined was higher than the average of ore reserves throughout the year. It is estimated that ore grade for 1967 will be close to the grade of the ore reserves.

Net profit was $16,215,000 or $2.46 per share. The increase over 1965 of some $1,580,000 (11%) was mainly the result of increased production and a reduction in interest charges. Provincial Mining Duties increased $1,067,000 for a total of $2,341,600 for the year.

At the year-end the Company was free of debt, having redeemed the outstanding $12,000,000 6% secured income debentures during the year. In the three years since the commencement of full production, your Company has paid off $33,300,000 of debt, spent $12,100,000 on fixed assets for plant expansion and improvements plus $1,950,000 on items of deferred development.

An initial interim dividend of twenty-five cents per share was declared payable on the 22nd of March, 1967.

AT THE MINE

Mining operations were normal during the year. Ore reserves were depleted by 729,000 tons through the mining of 1,409,000 tons and the addition of 680,000 tons of new ore.

Research into improvement in recoveries at the concentrator continued.

A limited program of outside exploration in the Matagami area was inauguarated during the year without significant result.

Sixteen housing units for employees were constructed, bringing the total to 197.

ZINC REDUCTION PLANT

The Valleyfield reduction plant (in which your Company has 62½ % interest) produced over 87,400 tons of slab zinc in 1966, an average of 240 tons per day. Production was again limited by available roasting facilities.

The program of expanding plant capacity to 400 tons per day was virtually completed. The first unit of the roaster and the acid plant commenced operations at the end of October and the second roasting unit went on stream in the last week of November. The total cost of expanded facilities was well within the original estimates.

General Smelting Company of Canada Limited, wholly-owned by Canadian Electrolytic Zinc Limited, operated for the first year in its new Burlington plant to which it had moved in 1965. Results of 1966 operations as expected were substantially better than the previous year. The new plant and improved working conditions are profitable.

ZINC

For the fifth consecutive year free world zinc metal production and consumption set new records with increases of 5% to 3,615,000 tons and 2% to 3,777,000 tons respectively. Canadian production rose 13% to exceed 1,000,000 tons for the first time.

Consumption overseas declined with lower industrial activity but was more than offset by an increase of 5% in the United States to 1,425,000 tons. With United States production unchanged, the additional United States requirements were supplied mainly by imports which were free from quota restrictions throughout the year for the first time since 1958.

With production expanding and easier demand, industry stocks rose last fall and production cutbacks of about 10% were introduced by most major producers outside the United States. The zinc industry is now in a position which assures consumers of long term supplies for expansion of present applications and development of new uses.

In March of 1966 the producers' price overseas was reduced from £110 to £102 per long ton, equivalent to 12¾¢ U.S. per pound. The price has remained at 14½¢ U.S. in the United States for Prime Western at East St. Louis and 14½¢ Canadian funds per pound in Canada.

COPPER

Copper continued in short supply during 1966 as supplies were affected by problems in Zambia and demand in the United States was inflated by the escalating war in Viet Nam. Refined production at 4,090,000 tons was only slightly less than the record in 1965. Despite lower demand overseas, deliveries increased as 430,000 tons were released from the United States stockpile.

Early in the year concern over the African situation forced the marginal price on the London Metal Exchange over 90¢ U.S. per pound. The Chileans reacted by increasing their price by 20¢ to 62¢. The Zambians adopted the LME three months' quotation which has since become the basis generally for overseas sales. After remaining unchanged through 1966, prices in the United States and Canada were raised in January by 2¢ and 2¼¢ to 38¢ U.S. and 47¼¢ Canadian funds per pound respectively.

* * * * * *

Recognizing that the past year has been an extremely difficult one because of a critical scarcity of all classes of skilled workers, we commend Mr. M. W. Airth, Manager, his staff members and all other employees for their effective performance during the year.

On behalf of the Board,

W.S. Row

President.

Toronto, Ontario,
February 21, 1967.

REPORT OF THE MANAGER

The President and Directors
MATTAGAMI LAKE MINES LIMITED

Operations at the property during the year ended December 31, 1966 are reviewed in the following report.

The mill and plant operated at capacity for the full year. Average daily mill rate during 1966 was 3,866 tons compared with 3,852 tons daily during 1965.

PRODUCTION

	1966	1965
Ore Milled — dry tons	1,411,100	1,406,154
Daily Rate	3,866	3,852
Calculated Grade:		
Zinc %	13.2	11.7
Copper %	0.62	0.69
Gold oz/ton	0.014	0.015
Silver oz/ton	1.04	1.07
Zinc Concentrate Produced		
— short dry tons	333,753	294,822
Grade: Zinc %	52.0	52.2
Copper Concentrate Produced		
— short dry tons	30,355	38,325
Grade: Copper %	21.27	19.61
Gold oz/ton	0.198	0.181
Silver oz/ton	12.93	9.15

The zinc concentrate was shipped to the Canadian Electrolytic Zinc Plant at Valleyfield, to Quebec City for export, and to the United States. The copper concentrate was shipped to the smelter of Noranda Mines Limited.

MILLING

The mill operated 98.27% of the possible time during the year and metal recoveries were as follows:

	1966	1965
Zinc %	93.2	92.0
Copper %	74.1	73.1

Tonnage milled and operating time during 1966 were essentially unchanged from the previous year, although there was one unscheduled shut-down. This occurred during July when a break in the buried water supply line caused a 56-hour loss of milling time before the break could be located and repaired. Early in the year a decision was taken to purchase and instal continuous on-stream X-ray analysis equipment for the purpose of improving zinc circuit operations.

MINING:

Mine development was directed toward stope and pillar preparation in both No. 1 and No. 2 orebodies. Access drifts were driven for exploratory diamond drilling of the tuffite and peridotite horizons below the 750 level.

SUMMARY OF DEVELOPMENT FOR 1966

	Level Development		Stope Development		Diamond Drilling	
Levels	Drifts Raises Feet	Slash Cu. Ft.	Advance Feet	Slash Cu. Ft.	No. of Holes	Total Feet
150	395	5,470	3,124	8,830	13	773
350	—	—	10,235	46,550	17	2,056
550	—	—	6,509	24,450	36	2,985
750	4,231	37,750	8,054	43,415	89	32,532
960	22	1,200	—	—	—	—
Totals	4,648	44,420	27,922	123,245	155	38,346

During the year 1,409,100 tons of ore were hoisted. This tonnage had an average grade of 13.2% Zn and 0.69% Cu.

Extension rod drilling amounted to 548,157 feet of two-inch diameter hole and at year end there was a drilled-off tonnage in the stopes and pillars of 1,286,052 tons. This compares with the drilled-off tonnage in 1965 which was 1,253,922 tons.

Because of favourable ground conditions in certain sections of the mine, it has been found to be advantageous and economical to blast these pillars into the open voids of the adjacent stopes. This has altered the mining sequence and necessitated the mining of a higher grade of zinc for the year due to the resultant delay in the preparation of lower grade stopes as planned.

ORE RESERVES

Mining was confined to No. 1 Orebody and 1,409,100 tons grading 13.4% zinc and 0.59% copper were removed. After taking into consideration additional ore outlined by diamond drilling, and lower grade material now economic due to favourable metal prices, the proven ore above the 750-foot level, without allowance for dilution, now stands as follows for No. 1 Orebody:

Tons	Zinc %	Copper %	Gold Oz/ton	Silver Oz/ton
16,913,050	10.4	0.68	0.014	1.15

In the No. 2 Orebody the ore reserves remain essentially the same, and without allowance for dilution, are as follows:

Tons	Zinc %	Copper %	Gold Oz/ton	Silver Oz/ton
1,813,261	10.1	0.75	0.013	0.99

Total ore reserves in both No. 1 and No. 2 Orebodies are as follows:

Tons	Zinc %	Copper %	Gold Oz/ton	Silver Oz/ton
18,726,311	10.4	0.69	0.014	1.13

From the above it may be noted that an additional 680,366 tons of ore were placed in reserves during 1966.

FILLING

Stopes are being filled with classified tailings fill as they are completed. During the year 539,920 dry tons of fill were placed. There are now seven stopes filled and three filling. Very little success was obtained in producing an economic consolidating backfill. However, test work in extracting pillars against unconsolidated fill is very encouraging.

DIAMOND DRILLING

Surface drilling was confined to the peridotite-rhyolite contact on the north side of No. 1 Orebody where low nickel-copper values were encountered in the original drilling. Nothing of ore grade was obtained.

Diamond drilling below the No. 1 Orebody is outlining some lower grade ore. This work is incomplete.

Testing of the favourable andesite-rhyolite contact between the 750-foot and 2000-foot horizon is being continued. Only low metal values over narrow widths are being obtained. Also, the peridotite-rhyolite contact below the 750-foot level is being tested. This program has just started and the first hole indicated the continuation of sub-ore copper-nickel values at the contact.

PERSONNEL

The average number of employees on the payroll for the year was 447. The 1965 figure was 455. Operating efficiency was 11.9 tons milled per man shift worked and compares favourably with the 1965 figure of 11.2 tons milled per man shift worked.

Our accident record in 1966 showed some improvement over that of 1965 and considerably better than the Quebec average. Continued improvement is looked for in 1967.

The turnover in personnel continues high but is less than that of 1965. At the year-end 65% of employees had seniority of one year or more. Additional housing and good working conditions are producing a steadier work force.

A two-year labour contract was signed on September 16th.

GENERAL

Sixteen additional housing units were built under contract by the Company and all were occupied by year-end. The Company now owns 197 units in the Town of Matagami.

During the year the Company donated a covered arena to the Town of Matagami. By the year-end it was erected to the great enjoyment of all the population.

Municipal planning proceeded for a hospital, an additional school and a permanent church. It is hoped that these projects will bear fruit in 1967. Paving of streets and construction of sidewalks have now been completed in town.

The employees' Recreation Association enjoyed another successful year.

Once again I wish to acknowledge with thanks the assistance and support of the President, Officers and Directors of the Company.

And in conclusion I take great pleasure in acknowledging the hard work, loyalty and full co-operation of the staff and all employees throughout the year.

M. W. Airth

M. W. AIRTH, P.Eng.,
Mine Manager.

Matagami, Quebec,
February 1, 1967.

MATTAGAMI LAKE MINES LIMITED *(Incorporated under the laws of Quebec)*
(NO PERSONAL LIABILITY)

BALANCE SHEET —

ASSETS

	1966	1965
Current assets:		
Cash and short-term deposits	$ 247,858	1,697,539
Settlements receivable	3,418,270	2,908,950
Other accounts receivable	383,287	443,586
Concentrates and metal at reduction plants and in transit at estimated net realizable value	10,561,769	7,955,998
Prepaid expense and deposits	36,805	34,267
	14,647,989	13,040,340
Fixed assets, at cost less accumulated depreciation:		
Buildings, plant and equipment:		
Mine site	18,590,068	18,061,370
Zinc plant	18,795,813	12,389,208
	37,385,881	30,450,578
Less accumulated depreciation	9,504,645	5,781,437
	27,881,236	24,669,141
Mining property and rights	2,503,021	2,503,021
Land — zinc plant	85,640	85,640
	30,469,897	27,257,802
Investments:		
In partly owned subsidiaries (note 1):		
Shares at cost	739,866	738,493
Advances	53,748	1,371
	793,614	739,864
In other companies, at cost	748,369	748,369
	1,541,983	1,488,233
Other assets:		
Preproduction and development expenses at cost less amounts written off	5,586,888	7,557,238
Special 5% refundable tax	725,780	—
Mine stores and supplies, at cost	632,221	684,287
Discount on debentures less amount amortized	—	363,630
	6,944,889	8,605,155
	$53,604,758	50,391,530

See accompanying notes to financial statements.

AUDITORS' REPORT

We have examined the balance sheet of Mattagami Lake Mines Limited as of December 31, 1966 and the statement of net income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Ontario,
February 16, 1967.

DECEMBER 31, 1966 **with comparative figures for 1965**

LIABILITIES

	1966	1965
Current liabilities:		
Accounts payable and accrued liabilities	$ 728,763	1,210,411
Due to subsidiary company	106,180	—
Sinking fund payment on debentures due currently	—	4,400,000
Accrued interest on debentures	—	485,592
Quebec mining duties payable	1,139,876	1,281,414
	1,974,819	7,377,417
Long-term debt:		
6% Secured income debentures, Series A, maturing April 30, 1975	—	12,000,000
Less sinking fund payment due currently	—	4,400,000
	—	7,600,000
Shareholders' equity:		
Capital stock (note 2):		
Shares of a par value of $1 each. Authorized 7,000,000 shares; issued 6,600,000 shares	6,600,000	6,600,000
Premium on shares	1,499,998	1,499,998
	8,099,998	8,099,998
Retained earnings	43,529,941	27,314,115
	51,629,939	35,414,113
	$53,604,758	50,391,530

Approved on behalf of the Board:

W. S. ROW, Director.

J. B. REDPATH, Director.

TO THE SHAREHOLDERS

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and statement of net income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company at December 31, 1966 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

STATEMENT OF NET INCOME AND RETAINED EARNINGS

Year ended December 31, 1966

with comparative figures for 1965

	1966	1965
Gross value of metals produced	$51,991,089	46,026,074
Less smelter and transportation charges	16,966,618	14,682,721
	35,024,471	31,343,353
Expenditures:		
Mine and zinc reduction plant expenses	9,169,500	8,485,708
Administration and corporate expenses	277,433	127,267
	9,446,933	8,612,975
	25,577,538	22,730,378
Depreciation and amortization:		
Buildings, plant and equipment	3,738,616	3,045,058
Preproduction and deferred development expenditures	2,600,943	2,474,824
Debenture discount	363,630	233,576
	6,703,189	5,753,458
Net operating income	18,874,349	16,976,920
Other income — interest	185,005	102,620
	19,059,354	17,079,540
Other charges:		
Interest on debentures	501,928	1,080,000
Interest on bank loan	—	87,013
Organization expense written off	—	6,950
	501,928	1,173,963
	18,557,426	15,905,577
Quebec mining duties	2,341,600	1,274,200
Net income for the year (note 3)	16,215,826	14,631,377
Retained earnings at the beginning of the year	27,314,115	12,682,738
Retained earnings at the end of the year	$43,529,941	27,314,115

See accompanying notes to financial statements.

NOTES
TO FINANCIAL STATEMENTS
December 31, 1966

1. The Company's share of the net income of the subsidiary companies for the year ended December 31, 1966 was $67,541 and of their retained earnings since acquisition was $124,240 at that date. These amounts are not included in the accompanying statements.

2. During the year ended December 31, 1966 options on 17,500 shares of the Company's capital stock were granted to certain key employees under the provisions of the Stock Option Plan. No options were exercised during the year.

3. The three year exempt period during which no income taxes are exigible on the Company's income under the provisions of The Income Tax Act (Canada) ended November 30, 1966. The Company's income in December, 1966 which would otherwise have been subject to tax, was offset by preproduction expenditures not claimed previously for income tax purposes.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1966
with comparative figures for 1965

	1966	1965
Funds provided:		
From operations:		
Net profit	$16,215,826	14,631,377
Charges not requiring cash expenditure:		
Depreciation and amortization	6,703,189	5,753,458
Organization expense	—	6,950
	22,919,015	20,391,785
Reduction in mine stores and supplies	52,066	39,529
Total funds provided	22,971,081	20,431,314
Used as follows:		
Purchase of fixed assets (net):		
Buildings, plant and equipment:		
Mine site	532,286	826,890
Zinc plant	6,418,426	2,242,105
Zinc plant land	—	(5,980)
	6,950,712	3,063,015
Redemption of debentures classed as long term debt	7,600,000	6,000,000
Provision for repayment of debentures	—	4,400,000
Purchase of investments	53,750	733,765
Development expenditures deferred	630,592	663,822
Special 5% refundable tax	725,780	—
Total funds used	15,960,834	14,860,602
Addition to working capital	$ 7,010,247	5,570,712

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